



## ASX ANNOUNCEMENT

### Half Year 2018 Results Highlights Presentation

I have pleasure in enclosing the Half Year 2018 Results Highlights Presentation to be discussed on the Half Year Result 2018 Conference Call scheduled for 11:00am today.

A handwritten signature in blue ink, appearing to read "B. G. Kelly", is positioned above the printed name.

Brett Kelly  
Company Secretary

28 February 2018

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For further information please contact

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# 1H FY2018 Half Year Results

## 28 February 2018



Barry Irvin – Executive Chairman  
Paul van Heerwaarden – CEO  
Colin Griffin – CFO



# Key Messages









## **The great Australian food company**

- § Solid financial performance in first half
- § Bega Foods integration progressing well
- § PCA acquisition completed
- § Significant investment in brand positioning, transition and business integration
- § Dairy nutritionals stabilised following market correction in FY2017
- § Dairy ingredients growth
- § Margin pressure in retail dairy and food
- § Increased competition for milk



## KEY HIGHLIGHTS



	1H FY18	1H FY17	Change %
<b>REVENUE (\$'000)</b>			
	705,195	621,131	14 ↑
<b>PRODUCTION VOLUME (TONNES)</b>			
	137,175	112,474	22 ↑
<b>EBITDA (\$'000)</b>			
	70,086	42,596	65 ↑
NORMALISED		NORMALISED	
	51,698	35,496	46 ↑
STATUTORY		STATUTORY	
<b>PROFIT AFTER TAX (\$'000)</b>			
	36,584	20,659	77 ↑
NORMALISED		NORMALISED	
	20,563	15,689	31 ↑
STATUTORY		STATUTORY	
<b>BASIC EARNINGS PER SHARE (CENTS)</b>			
	20.0	13.5	48 ↑
NORMALISED		NORMALISED	
	11.2	10.3	9 ↑
STATUTORY		STATUTORY	
<b>TOTAL DIVIDEND PER SHARE (CENTS)</b>			
	5.5	5.0	10 ↑

Normalised results exclude the impact of significant events occurring during the year.



# 1H FY2018 Results Normalised\*



Consolidated Period Ending 31 December 2017	Per Financial Statements \$'000	Bega Foods Acquisition Costs \$'000	Bega Foods Fair Value Adjustments \$'000	PCA Acquisition Costs \$'000	Other Costs \$'000	Normalised Result \$'000	Change from prior period \$'000	%
Revenue	705,195	-	-	-	-	705,195	84,064	14
Cost of sales	(571,541)	-	3,733	-	-	(567,808)	(18,831)	3
<b>Gross profit</b>	<b>133,654</b>	<b>-</b>	<b>3,733</b>	<b>-</b>	<b>-</b>	<b>137,387</b>	<b>65,233</b>	<b>90</b>
Other income and expenses	(81,956)	11,659	-	2,061	935	(67,301)	(37,743)	128
<b>EBITDA</b>	<b>51,698</b>	<b>11,659</b>	<b>3,733</b>	<b>2,061</b>	<b>935</b>	<b>70,086</b>	<b>27,490</b>	<b>65</b>
<b>EBIT</b>	<b>38,062</b>	<b>11,659</b>	<b>3,733</b>	<b>2,061</b>	<b>935</b>	<b>56,450</b>	<b>26,402</b>	<b>88</b>
Finance costs	(3,890)	-	-	-	-	(3,890)	(2,476)	175
Profit before income tax	34,172	11,659	3,733	2,061	935	52,560	23,926	84
<b>Profit for the half year</b>	<b>20,563</b>	<b>10,791</b>	<b>2,613</b>	<b>1,962</b>	<b>655</b>	<b>36,584</b>	<b>15,925</b>	<b>77</b>
Basic earnings per share - cents	11.2					20.0	6.5	48

\*Normalised for acquisition costs for Bega Foods, Peanut Company of Australia and fair value adjustments.

# Balance Sheet (extract)



	1H FY2018 Dec \$m	1H FY2017 Dec \$m	FY2017 Jun \$m
Cash and cash equivalents	18.7	14.5	475.5
Trade and other receivables	215.5	160.5	168.5
Inventories	272.5	194.3	167.9
Property, plant & equipment	307.5	222.7	196.8
Intangible assets	413.3	14.6	22.7
<b>Total Assets</b>	<b>1,250.4</b>	<b>621.3</b>	<b>1,056.3</b>
Trade and other payables	229.9	157.9	169.3
Borrowings	292.1	85.1	215.3
<b>Total Liabilities</b>	<b>616.1</b>	<b>286.3</b>	<b>483.6</b>
<b>Net Assets</b>	<b>634.3</b>	<b>335.0</b>	<b>572.7</b>
Net Debt	(273.4)	(70.6)	260.2

# Segments



Segment Information Period Ending 31 December 2017	Bega Cheese \$'000	Tatura Milk \$'000	Consolidation Adjustments \$'000	Group Total \$'000
Revenue	497,306	233,294	(25,405)	705,195
EBITDA	17,164	38,267	(3,733)	51,698
Depreciation, amortisation and impairment	(9,465)	(4,171)	-	(13,636)
EBIT	7,699	34,096	(3,733)	38,062
Interest revenue	161	1,515	(1,168)	508
Interest expense	(5,530)	(36)	1,168	(4,398)
<b>Profit before income tax</b>	<b>2,330</b>	<b>35,575</b>	<b>(3,733)</b>	<b>34,172</b>
Income tax expense	(6,129)	(8,600)	1,120	(13,609)
<b>Profit for the period</b>	<b>(3,799)</b>	<b>26,975</b>	<b>(2,613)</b>	<b>20,563</b>
Acquisitions and corporate costs - after tax impact	13,408	-	2,613	16,021
<b>Normalised profit for the period</b>	<b>9,609</b>	<b>26,975</b>	<b>-</b>	<b>36,584</b>

# Bega Foods

- § Transaction completed 4 July 2017
- § FY2018 will not receive full years sales revenue
- § Integration progressing well – strong cultural alignment
- § Bega Foods now includes Peanut Company of Australia and the international branded consumer and food service business
- § Successful brand activation
  - § Vegemite - Australian tennis open, Cadel Evans ride
  - § Peanut butter - Bega brand transition, marketing investment
  - § Zoosh brand transition completed
- § Vegemite, peanut butter and Zoosh
  - § Significant up front investment in brand and brand positioning





# Peanut Company of Australia and Peanut Butter



## Peanut Company of Australia

- § Acquisition completed 25 January \$0.83 per share \$11.9 million
- § Australia's largest processor and supplier of peanuts
- § Average intake since 2015 approximately 17,000 tonnes (60-80% total Australian peanut production)
- § Peanut production in Australia is estimated to be less than 40% of domestic consumption
- § PCA acquisition secures Australian peanut supply chain
- § Opportunity to increase peanut production in Australia

## Peanut Butter

- § Accelerated investment in branding and positioning
- § Bega peanut butter differentiated by ownership of supply chain and manufacturing infrastructure combined with close association with Australian farmers
- § Provenance objective for Bega peanut butter, 100% Australian peanuts
- § Aggressive competitive environment impacting margins

# Consumer Packaged Cheese



- § Retailers mark contracts remain highly competitive
- § Retailers mark contract transition from Coles to Woolworths now complete
- § Food service growth continues
- § International market growth
- § Capital expenditure in shred and slice lines complete
- § Continuous improvement program
- § Optimising manufacturing capacity and capability footprint



# Dairy Ingredients



- § Strong performance for ingredients
- § Milk supply intake increased 25% year on year
- § Volume growth of cream cheese 19%
- § Increase in mozzarella production 33%
- § Implementing continuous improvement program
- § Highly competitive milk acquisition environment
- § Global commodity price volatility
- § Analysts predicting additional global milk supply and oversupply of commodities in CY2018



# Nutritionals



- § Dairy nutritionals stabilised following market correction in FY2017
- § More stable market and regulatory environment
- § Investing in the development of new nutritional categories
- § Continue to invest in novel nutraceuticals and bionutrient capacity
- § Mead Johnson transition progressing well
- § Lactoferrin market stabilised with price improving
- § Secured long term sourcing arrangements for commercial quantities of organic milk destined for infant formula

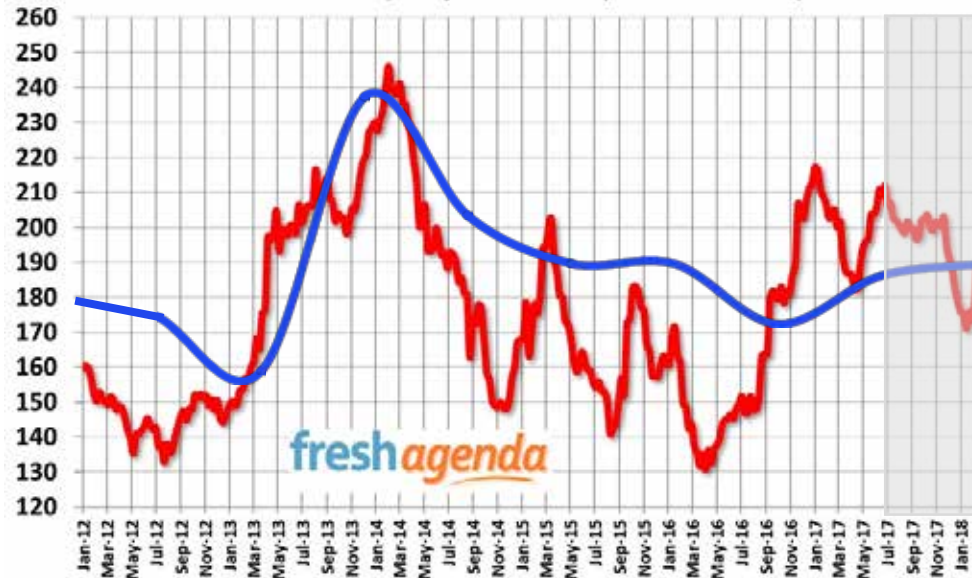




# Dairy commodity price and farm gate milk price



Australasian dairy export index (Jan 2012-now)



- Export trend index - global commodity prices/Australian currency impact source *freshagenda*
- Bega Cheese southern farm gate milk price trend
- FY2016 Opening and closing milk price \$5.60 per Kg MS
- FY2017 Opening milk price \$5.00 per Kg MS
- FY2018 Opening milk price \$5.50 per Kg MS

- § 25% increase in milk intake volume
- § 3% increase in national production and 8% increase in northern Victoria
- § Farm gate milk price more aligned with global dairy market

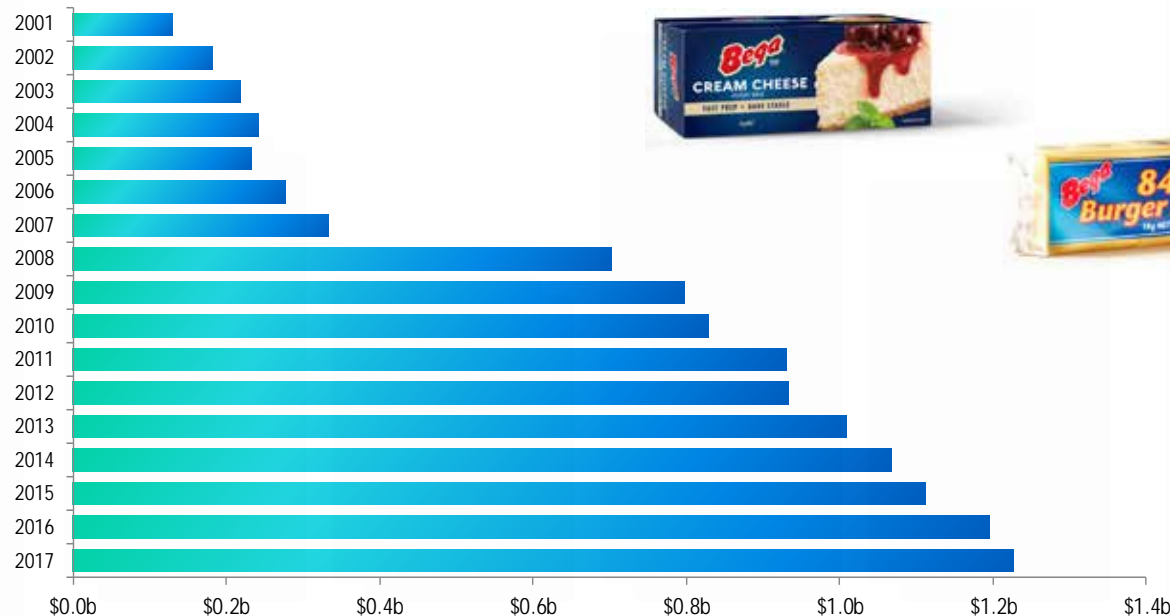




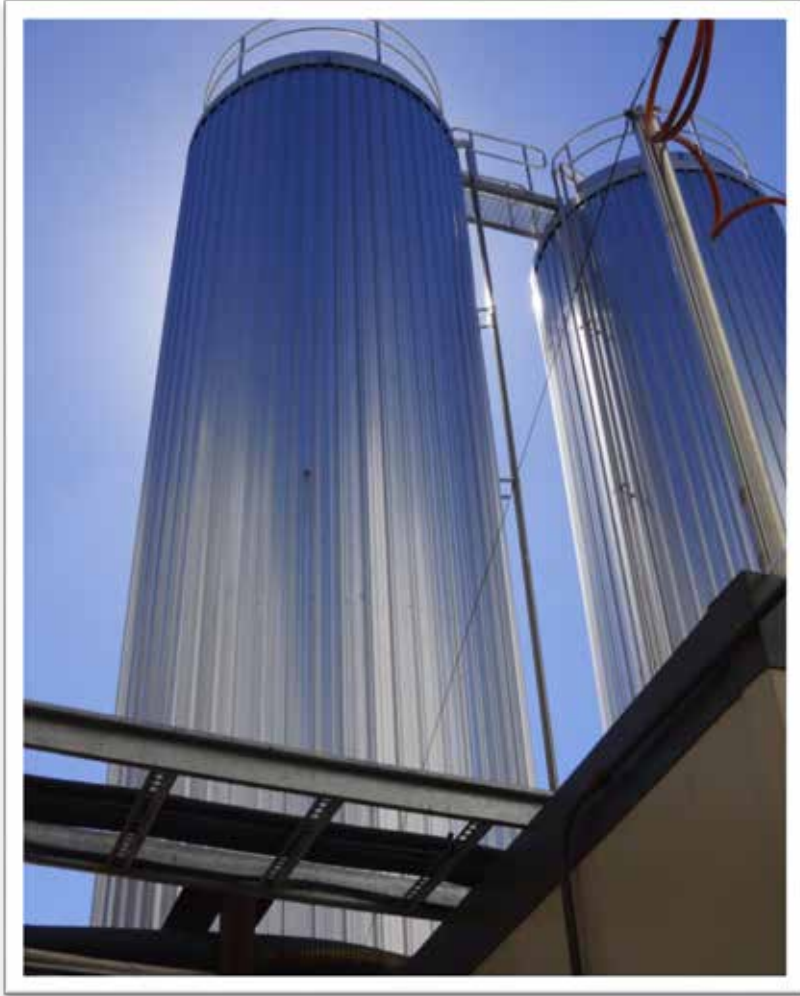
# Group Sales



- § 1H FY2018 sales \$705 million increased 14%
- § Additional sales following Mondelez Grocery Business acquisition \$136 million
- § Decrease in private label cheese in 1H FY2018 (Woolworths only) compared to 1H FY2017 (servicing both Coles and Woolworths)
- § Cheese sales to Mondelez previously classified as Revenue now accounted for as intra-company transfer



# Operations Review



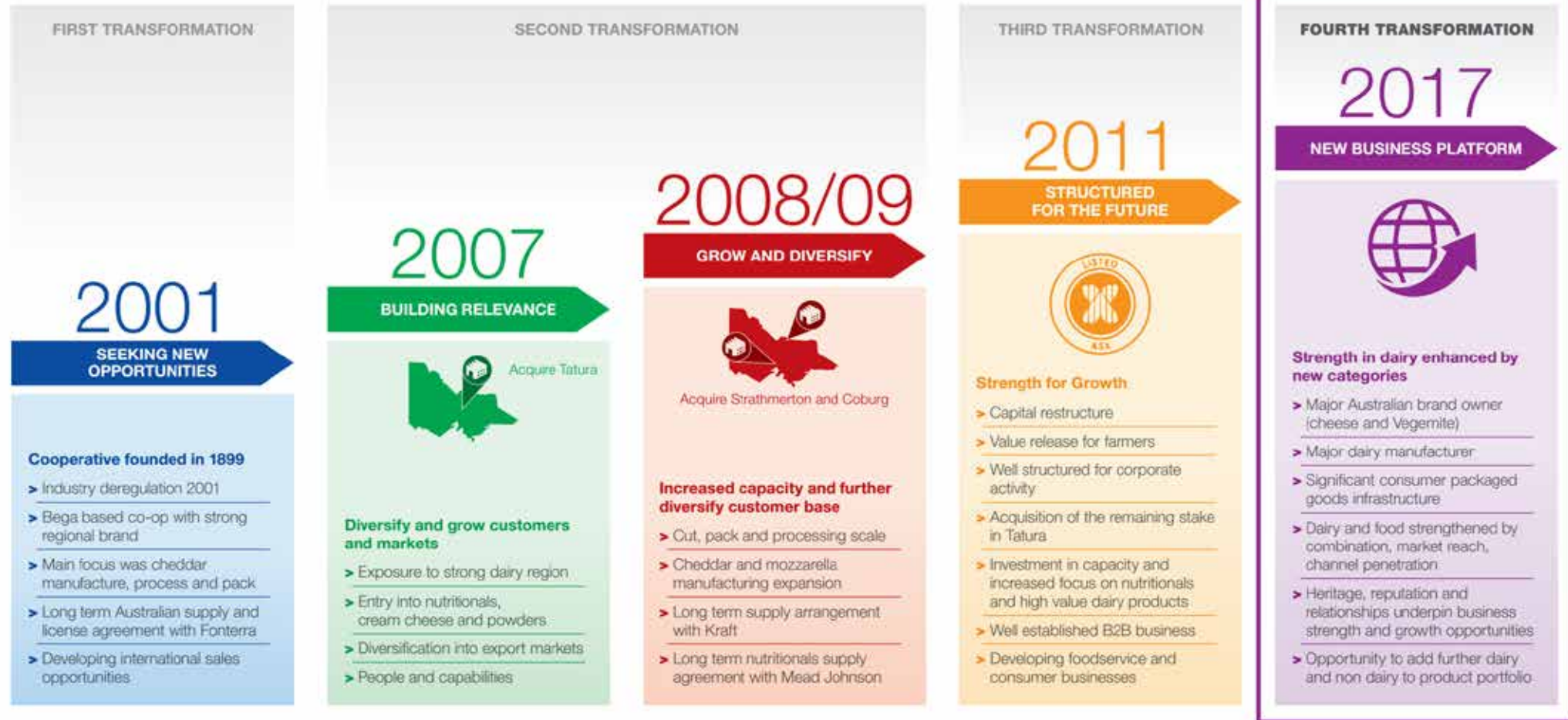
## Operations

- § 137,175 tonnes of production
- § Capital expenditure \$7.5 million focused on efficiency and capacity
- § Continuous improvement programs across all sites
- § Optimising manufacturing capacity and capability footprint

## Environment and safety

- § Bega Cheese sustainability report issued March 2017
- § Continued success with on farm environmental management program
- § 42% reduction in TRIFR

# Bega Cheese Transformation



# Where we are Today?



*A stable business growing in dairy and building in food*

- § Bega Foods integration well progressed
- § Peanut Company of Australia acquisition complete
- § Strong presence in major Australian retailers with significant market investment in brand transitions and brand positions
- § Growth in dairy nutritional business following market correction
- § Growth in high value dairy ingredients business
- § International and Australian food service and retail channels strengthened
- § New corporate opportunities continue to emerge in dairy and food

# Our focus



## *Creating the great Australian food company*

- § Protect the strengths, reputation and returns of the businesses
- § Manage volatility in changing markets and maintain a globally competitive supply chain
- § Leverage and grow our iconic brand portfolio
- § Expand channels and markets for our products
- § Build on sales strength and operational knowledge of the combined business
- § Invest for efficiency and optimisation of infrastructure
- § Maintain a strong balance sheet and optimise cashflow
- § Remain agile and well positioned to identify and execute corporate opportunities



# Outlook



- § Continued growth in branded consumer and food service business
- § Dairy ingredients market softening with competitive milk acquisition environment
- § Nutritionals business continued recovery
- § Integration of Bega Foods further progressed
- § Consumer packaged goods will remain highly competitive
- § FY2018 normalised EBITDA range \$105-\$115 million
- § Acquisition opportunities remain in dairy and food





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